

**AUDIT COMMITTEE MEETING MINUTES
OF TENNESSEE CONSOLIDATED RETIREMENT SYSTEM (TCRS)
June 29, 2012**

The Audit Committee of the Board of Trustees of the Tennessee Consolidated Retirement System met on Friday, June 29, 2012, at 8:00 a.m. The meeting was held in Legislative Plaza, Room 30, with Chairman Michael Barker presiding.

The following members were present: Chairman Michael Barker, Mayor Ken Wilber, Tennessee Municipal League; and Commissioner Rebecca Hunter, Tennessee Department of Human Resources.

Others present were: Mr. David Lillard, Jr., Treasurer; Ms. Janice Cunningham, Chief of Staff; Mr. Andy Furlong, Director of Internal Audit; Ms. Jill Bachus, Director of TCRS; Ms. Suzanne Smotherman, Concord Audit Manager; Ms. Stacey Jackson, Internal Auditor; Ms. Doreen Zientar, Internal Auditor; Mr. Andy McArthur, Internal Auditor; Patsy Moore, West Tennessee Teacher; Mr. Tommie Pendergrass, Department of Financial Institutions; Alfred Laney, Retired State Employee; and Rick Tharp, Deloitte Project Associate, Concord Project team.

Members not present: Secretary of State Tre Hargett and Mr. Erick Huth, Middle Tennessee Teacher

Approval of the March 30, 2012 Minutes of the Audit Committee

The meeting was called to order. Chairman Barker asked if any changes were needed to the minutes of the prior meeting. Commissioner Hunter questioned a reference to the "Counter Committee". It was decided that "counter" should be removed from the 'Other Business' section. Mayor Wilber motioned to accept the minutes subject to the discussed revision and Commissioner Hunter seconded the motion. The minutes of the March 29, 2012 Audit Committee meeting were unanimously approved as revised.

Introduction of Andy McArthur, Internal Auditor I

Mr. Furlong introduced Mr. McArthur as the new Internal Auditor for the Treasury Department and gave a brief bio of Mr. McArthur's background and accomplishments.

Concord Audit Log Presentation

Mr. Rick Tharp presented a brief overview of the Audit Log portion of the new Concord system. The Audit Log allows internal audit to track certain transactions within Concord. Mr. Tharp is testing each part of the Audit Log during development of the system. Ms. Smotherman will complete User Acceptance Testing. Audit Log phase 5 will go live in the winter of 2013.

Discuss Financial Integrity Act Report

Mr. Furlong discussed the Financial Integrity Act Report with the Committee. The report is due to the Comptroller of Treasury and Commissioner of Finance and Administration by December 31st of every year. In the absence of an Internal Audit Director at that time, Treasury submitted the report late. No significant deficiencies were noted and internal controls are in place and effective.

Discuss Internal Audit Reports

Mr. Furlong discussed two internal audit reports that were presented to the Audit Committee: Check Shredding Review and Commission Sharing Agreement Review. The Check Shredding Review recommended that check shredding activities be documented but determined that adequate controls are in place otherwise. The Commission Sharing Agreements Review provides an evaluation of the agreements to split commissions among brokers that provide research and those that execute trades. No issues were found.

Review Audit Committee Charter

Mr. Furlong stated the Audit Committee Charter should be periodically reviewed and updated. There were no suggestions for changes.

Commissioner Hunter motioned to keep the Charter as it is and Mayor Wilber seconded the motion. It was a unanimous decision among the Committee.

Discuss Optional Quadrennial Audit

Chairman Barker stated that there is a provision that allows the Audit Committee to request an independent audit every four years. Treasurer Lillard explained that State Audit's annual audit covers a broad scope and an independent audit could cost approximately \$200,000. He suggested that every four years the minutes should reflect whether the Audit Committee wants an independent audit conducted or not.

Commissioner Hunter motioned that an optional quadrennial audit is not necessary based on State Audit's annual audit of the department and Treasury's internal audit division. Mayor Wilber seconded the motion and the committee agreed unanimously.

Discuss Comptroller's Hotline

Mr. Furlong indicated that the Audit Committee Charter states a process must be in place for the Audit Committee to be informed about any reports of fraud or abuse. In the past it was assumed that the Comptroller's Hotline satisfied that requirement. Further investigation revealed that the Comptroller's office does not inform the Audit Committee directly of any reports. Typically, the Comptroller's office handles claims internally or notifies the appropriate Executive Director of the department. Treasurer Lillard mentioned an email hotline could be established so emails will be sent directly to the Chairman of the Audit Committee and the Board of Trustees. Mr. Furlong fielded several questions. Treasurer Lillard suggested setting up a meeting with the Comptroller's office before the next audit committee meeting to discuss what can be accomplished from a procedural standpoint.

Discuss Internal Audit Policies and Procedures

Mr. Furlong stated that upon his arrival to the Treasury department he noticed that Internal Audit's policies and procedures were out of date. He and his staff amended the policies and procedures to make them more current and removed redundant information. The policies and procedures were included in the meeting materials.

Private Equity Disclosure

Chairman Barker explained that anyone who has contact with someone who could influence the decision making of private equity investments must be disclosed to the audit committee. A listing of those individuals and their companies was provided with the meeting materials. There was no further discussion concerning the disclosures.

Other Business

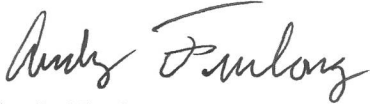
Ms. Bachus informed the committee that the retiree portion of Concord will go live in the winter of 2013 and the active employee portion will go live a year after. The document imaging system is now in place and staff is adjusting to working with electronic files. Ms. Bachus also relayed to the committee that a record number of retirement applications, approximately eight thousand, are expected for the year. Ms. Bachus fielded several other questions regarding the Concord system.

Treasurer Lillard commended Ms. Bachus and her staff for their work with the Concord system.

Adjournment

Chairman Barker stated that if there were no additional items to be discussed, the meeting could be adjourned. Mayor Wilbur motioned to adjourn the meeting and Commissioner Hunter seconded the motion. Chairman Barker thanked the members of the Audit Committee and adjourned the meeting.

Respectfully Submitted,



**Andy Furlong,
Director of Internal Audit**

Approved:



**Michael Barker
Chairman of the Audit Committee**